

**§ 32.1 Background.**

The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit consistency and stability in financial reporting (including the results published for regulatory purposes). Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well established body of accounting theories and principles commonly referred to as generally accepted accounting principles.

**§ 32.2 Basis of the accounts.**

(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represented what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure.

(b) Within the telecommunications industry companies, certain recurring functions (natural groupings) do take place in the course of providing products and services to customers. These accounts reflect, to the extent feasible, those functions. For example, the primary bases of the accounts containing the investment in telecommunications plant are the functions performed by the assets. In addition, because of the anticipated effects of future innovations, the telecommunications plant accounts are intended to permit technological distinctions. Similarly, the primary bases of plant operations, customer operations and corporate operations expense accounts are the functions performed by individuals. The revenue accounts, on the other hand, reflect a market perspective of natural groupings based primarily upon the products and services purchased by customers.

(c) In the course of developing the bases for this account structure, several other alternatives were explored. It was, for example, determined that because of the variety and continual changing of various costs allocation mechanisms, the financial accounts of a company should not reflect an *a priori* allocation of revenues, investments or expenses to products or services, jurisdictions or organizational structures. (Note also § 32.14 (c) and (d) of Subpart B). It was also determined that costs (in the case of assets) should not be recorded based solely upon physical attributes such as location, description or size.

(d) Care has been taken in this account structure to avoid confusing a function with an organizational responsibility, particularly as it related to the expense accounts. Whereas in the past specific organizations may have performed specific functions, the future environment with its increasing mechanization and other changes will result in entirely new or restructured organizations. Thus, any relationships drawn between organizations and accounts would become increasingly meaningless with the passage of time.

(e) These accounts, then, are intended to reflect a functional and technological view of the telecommunications industry. This view will provide a stable and consistent foundation for the recording of financial data.

(f) The financial data contained in the accounts, together with the detailed information

contained in the underlying financial and other subsidiary records required by this Commission, will provide the information necessary to support separations, costs of service and management reporting requirements. The basic account structure has been designed to remain stable as reporting requirements change.

**(g) LOCAL EXCHANGE CARRIERS UNDER PRICE CAP REGULATION WITHOUT SHARING, PURSUANT TO SECTION 61.41(a)(2)&(3) OF THE COMMISSION'S RULES, SHALL NOT BE SUBJECT TO THOSE SECTIONS OF PART 32 SO IDENTIFIED. RATHER, GENERALLY ACCEPTED ACCOUNTING PRINCIPLES SHALL APPLY.**

### **§ 32.3 Authority.**

This Uniform System of Accounts has been prepared under the following authority: Section 4 of the Communications Act of 1934, as amended, 47 U.S.C. Section 154 (1984); Sections 219, 220 of the Communications Act of 1934, as amended, 47 U.S.C. Sections 219, 220 (1984); **SECTIONS 401, 402 OF THE TELECOMMUNICATIONS ACT OF 1996.**

### **§ 32.4 Communications Act.**

Attention is directed to the following extract from Section 220 of the Communications Act of 1934, 47 U.S.C. § 220 (1984):

(e) Any person who shall willfully make any false entry in the accounts of any book of accounts or in any record or memoranda kept by any such carrier, or who shall willfully destroy, mutilate, alter, or by any other means or device falsify any such account, or memoranda, or who shall willfully neglect or fail to make full, true, and correct entries in such accounts, records, or memoranda of all facts and transactions appertaining to the business of the carrier, shall be deemed guilty of a misdemeanor, and shall be subject, upon conviction, to a fine of not less the \$1,000 nor more than \$5,000 or imprisonment for a term of not less than one year nor more than three years, or both such fine and imprisonment: Provided, that the Commission may in its discretion issue orders specifying such operating, accounting or financial papers, records, books, blanks, or documents which may after a reasonable time, be destroyed, and prescribing the length of time such books, papers, or documents shall be preserved.

For regulations governing the periods for which records are to be retained, see Part 42, Preservation of Records of Communications Common Carriers, of this chapter which relates to preservation of records.

## Subpart B - General Instructions

### § 32.11 Classification of companies.

(a) For accounting purposes, companies are divided into classes as follows:

(1) Class A. Companies having annual revenues from regulated telecommunications operations that are equal to or above the indexed revenue threshold.

(2) Class B. Companies having annual revenues from regulated telecommunications operations that are less than the indexed revenue threshold.

(b) Class A companies shall keep all the accounts of this system of accounts which are applicable to their affairs and are designated as Class A accounts. **COMPANIES NOT SUBJECT TO SECTION 32.2(g)** shall also keep Basic Property Records in compliance with the requirements of § 32.2000(e) and (f) of Subpart C.

(c) Class B companies shall keep all the accounts of this system of accounts which are applicable to their affairs and are designated as Class B accounts. **COMPANIES NOT SUBJECT TO SECTION 32.2(g)** shall also keep Continuing Property Records in compliance with the requirements of §§ 32.2000(e)(7)(A) and 32.2000 (f) of Subpart C.

(d) Class B companies that desire more detailed accounting may adopt the accounts prescribed for Class A companies upon the submission of a written notification to the Commission.

(e) The initial classification of a company shall be determined by its lowest annual operating revenues for the five immediately preceding years. Subsequent changes in classification shall be made when the annual operating revenues show a greater or lesser classification for five consecutive years. Companies becoming subject to the jurisdiction of the Commission and not having revenue data for the five immediately preceding years shall estimate the amount of their annual revenues and adopt the scheme of accounts appropriate for the amount of such estimated revenues.

### § 32.12 Records.

(a) The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts.

(b) The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)** the Commission shall require a company to maintain financial and other subsidiary records in such manner that specific information, of a type not warranting disclosure as an account or subaccount, will be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission.

**§ 32.13 Accounts - General.**

(a) As a general rule, all accounts kept by reporting companies shall conform in numbers and titles to those prescribed herein. However, reporting companies may use different numbers for internal purposes when separate accounts (or subaccounts) maintained are consistent with the title and content of accounts and subaccounts prescribed in this system.

(1) For Class A reporting companies, accounts which are clearly summaries of other accounts or subaccounts are to be used for reporting purposes and are not otherwise required to be maintained.

(2) A company may subdivide any of the accounts prescribed. The titles of all such subaccounts shall refer by number or title to the controlling account.

(3) A company may establish temporary or experimental accounts provided that within 30 days of the opening of such accounts the company notifies the Commission of the nature and purpose thereof.

(b) Exercise of the preceding options shall be allowed only if the integrity of the prescribed accounts is not impaired.

(c) As of the date a company becomes subject to this system of accounts, the company is authorized to make any such subdivisions, reclassifications or consolidations of existing balances as are necessary to meet the requirements of this system of accounts.

(d) Nothing contained in this Part shall prohibit or excuse any company, receiver, or operating trustee of any carrier from subdividing the accounts hereby prescribed for the purpose of:

- (1) Complying with the requirements of the state commission(s) having jurisdiction;
- or
- (2) Securing the information required in the prescribed reports to such commission(s).

(e) Where the use of subsidiary records is considered necessary in order to secure the information required in reports to any state commission, the company shall incorporate the following controls into their accounting system with respect to such subsidiary records.

(1) Subsidiary records shall be reconciled to the company's general ledger or books of original entry, as appropriate.

(2) The company shall adequately document the accounting procedures related to subsidiary records.

(3) The subsidiary records shall be maintained at an adequate level of detail to satisfy state regulators.

**§ 32.14 Regulated accounts.**

(a) In the context of this part, the regulated accounts shall be interpreted to include the investments, revenues and expenses associated with those telecommunications products and services to which the tariff filing requirements contained in Title II of the Communications Act of 1934, as amended, are applied, except as may be otherwise provided by the Commission. Regulated telecommunications products and services are thereby fully subject to the accounting requirements as specified in Title II of the Communications Act of 1934, as amended and as detailed in Subpart A through F of this Part of the Commission's Rules and Regulations.

**§ 32.14 Regulated accounts. (Cont'd)**

(b) In addition to those amounts considered to be regulated by the provisions of (a) above, those telecommunications products and services to which the tariff filing requirements of the several state jurisdictions are applied shall be accounted for as regulated, except where such treatment is proscribed or otherwise excluded from the requirements pertaining to regulated telecommunications products and services by this Commission.

(c) In the application of the detailed accounting requirements contained in this part, when a regulated activity involves the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, companies shall account for these activities within the accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets used and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Companies shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not qualifying for incidental treatment, as provided in § 32.4999(i) shall be recorded in Account 5280, Nonregulated operating revenue.

(d) Other income items which are incidental to the provision of regulated products and services shall be accounted for as regulated activities.

(e) All costs and revenues related to the offering of regulated products and services which result from arrangements for joint participation or apportionment between two or more telephone companies (e.g., joint operating agreements, settlement agreements, cost-pooling agreements) shall be recorded within the detailed regulated accounts. Under joint operating agreements, the creditor will initially charge the entire expenses to the appropriate primary accounts. The proportion of such expenses borne by the debtor shall be credited by the creditor and charged by the debtor to the account initially charged. Any allowances for return on property used will be accounted for as provided in Account 5240, Rent Revenue.

(f) All items of nonregulated revenue, investment and expense that are not properly includable in the detailed, regulated accounts prescribed in Subparts A through F of this Part, as determined by paragraphs (a) through (e) of this section shall be accounted for and included in reports to this Commission as specified in § 32.23 of this subpart.

**§ 32.15 [Reserved]**

**§ 32.16 Changes in accounting standards.**

(a) The company's records and accounts shall be adjusted to apply new accounting standards prescribed by the Financial Accounting Standards Board or successor authoritative accounting standard-setting groups, in a manner consistent with generally accepted accounting principles. **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, the change in accounting standard will automatically take effect 90 days after the company informs this Commission of its intention to follow the new standard, unless the Commission notifies the company to the contrary. Concurrent with informing this Commission of its intent to adopt an accounting standards change, the company shall also file a revenue requirement study for the current year and a projection for three years into the future analyzing the effects of the accounting standards change. Furthermore, any change subsequently adopted shall be disclosed in annual reports to this Commission.

(b) The changes in accounting standards which this Commission approves will not necessarily

be binding on the ratemaking practices of the various state commission.

**§ 32.17 Interpretation of accounts.**

To the end that uniform accounting shall be maintained within the prescribed system, questions involving matters of significance which are not clearly provided for shall be submitted to the Chief, Common Carrier Bureau, for explanation, interpretation, or resolution. Questions and answers thereto with respect to this system of accounts will be maintained by the Common Carrier Bureau.

**§ 32.18 Waivers.**

A waiver from any provision of this system of accounts shall be made by the Federal Communications Commission upon its own initiative or upon the submission of written request therefor from any telecommunications company, or group of telecommunications companies, provided that such a waiver is in the public interest and each request for waiver expressly demonstrates that: existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique; a specifically defined alternative procedure or technique will result in a substantially equivalent or more accurate portrayal of operating results or financial condition, consistent with the principles embodied in the provisions of this system of accounts, and the application of such alternative procedure will maintain or improve uniformity in substantive results as among telecommunication companies.

**§ 32.19 Address for reports and correspondence.**

Reports, statements, and correspondence submitted to the Federal Communications Commission in accordance with or relating to instructions and requirements contained herein shall be addressed to the Common Carrier Bureau, Federal Communications Commission, Washington, D.C., 20554.

**§ 32.20 Numbering convention.**

(a) The number "32" (appearing to the left of the first decimal point) indicates the part number.

(b) The numbers immediately following to the right of the decimal point indicate, respectively, the section or account. *All Part 32 Account numbers contain 4 digits to the right of the decimal point.*

(c) Cross references to accounts are made by citing the account numbers to-the-right-of the decimal point; e.g., Account 2232 rather than the corresponding complete Part 32 reference number 32.2232.

**§ 32.21 Sequence of accounts.**

The order in which the accounts are presented in this system of accounts is not to be considered

as necessarily indicative of the order in which they will be scheduled at all times in reports to this Commission.

**§ 32.22 Comprehensive interperiod tax allocation.**

(a) Companies shall apply interperiod tax allocation (tax normalization) to all book/tax temporary differences which would be considered material for published financial report purposes. Furthermore, companies shall also apply interperiod tax allocation if any item or group of similar items when aggregated would yield debit or credit entries which exceed or would exceed 5 percent of the gross deferred income tax expense debits or credits during any calendar year over the life of the temporary difference. The tax effects of book/tax temporary differences shall be normalized and the deferrals shall be included in the following accounts:

- 4100 Net Current Deferred Operating Income Taxes;
- 4110 Net Current Deferred Nonoperating Income Taxes;
- 4340 Net Noncurrent Deferred Operating Income Taxes;
- 4350 Net Noncurrent Deferred Nonoperating Income Taxes.

In lieu of the accounting prescribed herein, any company shall treat the increase or reduction in current income taxes payable resulting from the use of flow through accounting in prior years as an increase or reduction in current tax expense.

(b) Supporting documentation shall be maintained so as to separately identify the amount of deferred taxes which arise from the use of an accelerated method of depreciation.

(c) **FOR COMPANIES NOT SUBJECT TO SECTIONS 32.2(g),** subsidiary records shall be used to reduce the deferred tax assets contained in the accounts specified in paragraph (a) when it is likely that some portion or all of the deferred tax asset will not be realized. The amount recorded in the subsidiary record should be sufficient to reduce the deferred tax asset to the amount that is likely to be realized.

(d) The records supporting the activity in the deferred income tax accounts shall be maintained in sufficient detail to identify the nature of the specific temporary differences giving rise to both the debits and credits to the individual accounts.

(e) Any company that uses accelerated depreciation (or recognizes taxable income or losses upon the retirement of property) for income tax purposes shall normalize the tax differentials occasioned thereby as indicated in paragraphs (e)(1) and (e)(2) of this section.

(1) With respect to the retirement of property the book/tax difference between

- (i) the recognition of proceeds as income and the accrual for salvage value and
- (ii) the book and tax capital recovery, shall be normalized.

(2) Records shall be maintained so as to show the deferred tax amounts by vintage year separately for each class or subclass of eligible depreciable telephone plant for which an accelerated method of depreciation has been used for income tax purposes. When property is transferred to nonregulated activities, the associated deferred income taxes and unamortized investment tax credits shall also be identified and transferred to the appropriate nonregulated accounts.

(f) The tax differentials to be normalized as specified in this section shall also encompass the

additional effect of state and local income tax changes on Federal income taxes produced by the provision for deferred state and local income taxes for book/tax temporary differences related to such income taxes.

(g) Companies that receive the tax benefits from the filing of a consolidated income tax return by the parent company, (pursuant to closing agreements with the Internal Revenue Service, effective January 1, 1966) representing the deferred income taxes from the elimination of intercompany profits for income tax purposes on sales of regulated equipment, may credit such deferred taxes directly to the plant account which contains such intercompany profit rather than crediting such deferred taxes to the applicable accounts in paragraph (a) of this section. If the deferred income taxes are recorded as a reduction of the appropriate plant accounts, such reduction shall be treated as reducing the original cost of the plant and accounted for as such.

#### **§ 32.23 Nonregulated activities.**

(a) This section describes the accounting treatment of activities classified for accounting purposes as "nonregulated." Preemptively deregulated activities and activities (other than incidental activities) never subject to regulation will be classified for accounting purposes as "nonregulated." Activities that qualify for incidental treatment under the policies of this Commission will be classified for accounting purposes as regulated activities. Activities that have been deregulated by a state will be classified for accounting purposes as regulated activities. Activities that have been deregulated at the interstate level, but not preemptively deregulated, will be classified for accounting purpose as regulated activities until such time as this Commission decides otherwise. The treatment of nonregulated activities shall differ depending on the extent of the common or joint use of assets and resources in the provision of both regulated and nonregulated products and services.

(b) When a nonregulated activity does not involve the joint or common use of assets and resources in the provision of both regulated and nonregulated products and services, carriers shall account for these activities on a separate set of books consistent with instructions set forth in §§ 32.1406 and 32.7990. Transfer of assets and sales of products and services between the regulated activity and a nonregulated activity for which a separate set of books is maintained, shall be accounted for in accordance with the rules presented in § 32.27, Transactions with Affiliates. In the separate set of books, carriers may establish whatever detail they deem appropriate beyond what is necessary to provide this Commission with the information required in §§ 32.1406 and 32.7990.

(c) When a nonregulated activity does involve the common or joint use of assets and resources in the provision of regulated and nonregulated products and services, carriers shall account for these activities within accounts prescribed in this system for telephone company operations. Assets and expenses shall be subdivided in subsidiary records among amounts solely assignable to nonregulated activities, amounts solely assignable to regulated activities, and amounts related to assets and expenses incurred jointly or in common, which will be allocated between regulated and nonregulated activities. Carriers shall submit reports identifying regulated and nonregulated amounts in the manner and at the times prescribed by this Commission. Nonregulated revenue items not provided for elsewhere in this system of accounts and not qualifying for incidental treatment, as provided in § 32.4999(i) shall be recorded in separate subsidiary record categories of Account 5280, Nonregulated operating revenue. Amounts assigned or allocated to regulated products or services shall be subject to part 36 of this chapter.

#### **§ 32.24 Compensated absences.**

(a) Companies shall record a liability and charge the appropriate expense accounts for compensated absences (vacations, sick leave, etc.) in the year in which these benefits are earned by employees.



(b) With respect to the liability that exists for compensated absences which is not yet recorded on the books as of the effective date of this Part, the liability shall be recorded in Account 4120, Other Accrued Liabilities, with a corresponding entry to Account 1439, Deferred Charges. This deferred charge shall be amortized on a straight line basis over a period of ten years.

(c) Records shall be maintained so as to show that no more than ten percent of the deferred charge is being amortized each year.

#### **§ 32.25 Unusual items and contingent liabilities.**

**FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)** extraordinary items, prior period adjustments and contingent liabilities shall be submitted to this Commission for review before being recorded in the company's books of account. The materiality of corrections of errors in prior periods shall be measured in relation to the summary account level used for reporting purposes for Class A carriers, or in relation to total operating revenues or total operating expenses for Class B carriers. For Class A carriers, no correction in excess of one percent of the aggregate summary account dollars or one million dollars, whichever is higher, may be recorded in current operating accounts without prior approval. For Class B carriers, no correction which exceeds one percent of total operating revenues or one percent of total operating expenses, depending on the nature of the item, may be recorded in current operating accounts without prior approval.

#### **§ 32.26 Materiality.**

**COMPANIES NOT SUBJECT TO SECTION 32.2(g)** shall follow this system of accounts in recording all financial and statistical data irrespective of an individual items materiality under GAAP, unless a waiver has been granted under the provisions of § 32.18 of this subpart to do otherwise.

#### **§ 32.27 Transactions with affiliates. (R-1)**

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at the higher of fair market value and net book cost. For all other assets purchased by or transferred to a carrier from its affiliate, the assets shall be recorded at the lower of fair market value and net book cost. For purposes of this section carriers are required to make a good faith determination of fair market value.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or

statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined in part (d) of this section, shall be recorded at the prevailing price. For all other services provided by a carrier to its affiliate, the services shall be recorded at **FULLY DISTRIBUTED COST WHEN ANNUAL BILLINGS FOR SUCH SERVICE IS \$1 MILLION OR LESS. WHEN ANNUAL BILLINGS FOR SUCH SERVICE IS GREATER THAN \$1 MILLION, THE SERVICE SHALL BE RECORDED AT THE HIGHER OF FAIR MARKET VALUE AND FULLY DISTRIBUTED COST.** For all other services received by a carrier from its affiliate, the service shall be recorded **AT FULLY DISTRIBUTED COSTS WHEN ANNUAL BILLINGS FOR SUCH SERVICE IS \$1 MILLION OR LESS. WHEN ANNUAL BILLINGS FOR SUCH SERVICE IS GREATER THAN \$1 MILLION, THE SERVICE SHALL BE RECORDED** at the lower of fair market value and fully distributed cost, except that services received by a carrier from its affiliate **OR SERVICES PROVIDED BY A CARRIER TO AN AFFILIATE** that exists ~~solely~~ **PRINCIPALLY** to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost. For purposes of this section carriers are required to make a good faith determination of fair market value.

(d) In order to qualify for prevailing price valuation in sections (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 50 percent threshold on a asset-by-asset and service-by-service basis, rather than on a product line or service line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of member, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

## Subpart C - Instructions for Balance Sheet Accounts

### § 32.101 Structure of the balance sheet accounts.

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and Equivalents, through Account 1500, Other Jurisdictional Assets-Net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications Plant in Service, through Account 2007, Goodwill, shall include the regulated fixed assets.

Account 3100, Accumulated Depreciation, through Account 3600, Accumulated Amortization-Other, shall include the asset and deferred tax reserves.

Account 4010, Accounts Payable, through Account 4550, Retained Earnings, shall include all liabilities and stockholders equity.

### § 32.102 Nonregulated investments.

Nonregulated investments shall include the investment in nonregulated activities that are conducted through the same legal entity as the telephone company operations, but do not involve the joint or common use of assets or resources in the provision of both regulated and nonregulated products and services. See §§ 32.14 and 32.23.

### § 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.

#### BALANCE SHEET ACCOUNTS

<u>Account Title</u>	<u>Class A Account</u>	<u>Class B Account</u>
CURRENT ASSETS		
Cash and equivalents:		
Cash and equivalents		
1120		
Cash	1130	
Special cash advances	1140	
Working cash advances	1150	
Temporary investments	1160	
Receivables and allowances for doubtful		
accounts:		
Telecommunications accounts receivable	1180	1180
Accounts Receivable allowance -		
Telecommunications	1181	1181
Other accounts receivable	1190	1190

Accounts receivable allowance - other	1191	1191
Note receivable	1200	1200
Notes receivable allowance	1201	1201
Interest and dividends receivable	1210	1210
Supplies:		
Material and supplies	1220	1220
Prepayments:		
Prepayments		1280
Prepaid rents	1290	
Prepaid taxes	1300	
Prepaid insurance	1310	
Prepaid directory expenses	1320	
Other prepayments	1330	
Other current assets:		
Other current assets	1350	1350
NONCURRENT ASSETS		
Investments:		
Investment in affiliated companies	1401	1401
Investments in nonaffiliated companies	1402	1402
Nonregulated investments	1406	1406
Unamortized debt issuance expense	1407	1407
Sinking Funds	1408	1408
Other noncurrent assets	1410	1410
Deferred charges:		
Deferred tax regulatory asset	1437	1437
Deferred maintenance and retirements	1438	1438
Deferred charges	1439	1439
Other:		
Other jurisdictional assets - net	1500	1500

**§ 32.1120 Cash and equivalents.**

This account shall be used by Class B companies to record assets of the type required of Class A companies in Accounts 1130 through 1160.

**§ 32.1130 Cash.**

(a) This account shall include the amount of current funds available for use on demand in the hands of financial officers and agents, deposited in banks or other financial institutions and also funds in transit for which agents have received credit.

(b) Working cash advances shall be included in Account 1150, Working Cash Advances.

**§ 32.1140 Special cash deposits.**

(a) This account shall include the amount of cash on special deposit, other than in sinking and other special funds provided for elsewhere, to pay dividends, interest, and other debts, when such payments are due one year or less from the date of deposit; the amount of cash deposited to insure the performance of contracts to be performed within one year from date of the deposit; and other cash deposits of a special nature not provided for elsewhere. This account shall include the amount of cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced, and also cash realized from the sale of the company's securities and deposited with trustees to be held until invested in physical property of the company or for disbursement when the purposes for which the securities were sold are accomplished.

(b) Cash on deposit in special accounts where the funds are available for the current requirements of the company shall be included in Account 1130, Cash.

(c) Cash on special deposit to be held for more than one year from the date of deposit shall be included in Account 1410, Other Noncurrent Assets.

**§ 32.1150 Working cash advances.**

This account shall include the amount of cash advances to officers, agents, employees, and others as petty cash or working funds from which expenditures are to be made and accounted for.

**§ 32.1160 Temporary investments.**

(a) This account shall include the cost of current securities acquired for the purpose of temporarily investing cash, such as time drafts receivable and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments of a temporary character.

(b) Accumulated changes in the net unrealized losses of current marketable equity securities shall be included in the determination of net income in the period in which they occur in Account 7360, Other Nonoperating Income.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

**§ 32.1180 Telecommunications accounts receivable.**

(a) This account shall include all amounts due from customers for services rendered or billed and from agents and collectors authorized to make collections from customers. This account shall also include all amounts due from customers or agents for products sold. This account shall be kept in such manner as will enable the company to make the following analysis:

(i) Amounts due from customers who are receiving telecommunications service.

(ii) Amounts due from customers who are not receiving service and whose accounts are in process of collection.

(b) Collections in excess of amounts charged to this account may be credited to and carried in this account until applied against charges for services rendered or until refunded.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

#### **§ 32.1181 Accounts receivable allowance - telecommunications.**

(a) This account shall be credited with amounts charged to Account 5301, Uncollectible Revenue-Telecommunications, to provide for uncollectible amounts included in Account 1180, Telecommunications Accounts Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1180. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 5301, Uncollectible Revenue-Telecommunications.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary records categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

#### **§ 32.1190 Other accounts receivable.**

(a) This account shall include all amounts currently due, and not provided for in other accounts, such as those for traffic settlements, divisions of revenue, material and supplies, matured rents, and interest receivable under monthly settlements on short-term loans, advances, and open accounts.

(b) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein, that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

(c) Amounts included in this account pertaining to affiliates shall not include amounts receivable from sales of telecommunications service provided at tariffed rates. Such amounts shall be included in Account 1180, Telecommunications Accounts Receivable.

(d) If any items included in this account are not to be paid currently they shall be transferred to Account 1410, Other Noncurrent Assets, or 1401, Investments in Affiliated Companies, as appropriate.

**§ 32.1191 Accounts receivable allowance - other.**

(a) This account shall be credited with amounts charged to Account 5302, Uncollectible Revenue-Other to provide for uncollectible amounts included in Account 1190, Other Accounts Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credits to Account 1190. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained uncollectible amounts shall be charged directly to Account 5302, Uncollectible Revenue-Other.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

**§ 32.1200 Notes receivable.**

(a) This account shall include the cost of demand or time notes, bills and drafts receivable, or other similar evidences (except interest coupons) of money receivable on demand or within a time not exceeding one year from date of issue.

(b) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

**§ 32.1201 Notes receivable allowance.**

(a) This account shall be credited with amounts charged to Account 6790, Provision for Uncollectible Notes Receivable to provide for uncollectible amounts included in Account 1200, Notes Receivable. There shall also be credited to this account amounts collected which previously had been written off through charges to this account and credit to Account 1200. There shall be charged to this account any amounts covered thereby which have been found to be impracticable of collection.

(b) If no such allowance is maintained, uncollectible amounts shall be charged directly to Account 6790, Provision for Uncollectible Notes Receivable.

(c) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to affiliates and nonaffiliates. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

**§ 32.1210 Interest and dividends receivable.**

(a) This account shall include the amount of interest accrued to the date of the balance sheet on bonds, notes, and other commercial paper owned, on loans made, and the amount of dividends receivable on stocks owned.

(b) This account shall not include dividends or other returns on securities issued or assumed by the company and held by or for it, whether pledged as collateral, or held in its treasury, in special deposits, or in sinking and other funds.

(c) Interest receivable under monthly settlements on short-term loans, advances, and open accounts, shall be included in Account 1180, Telecommunications Accounts Receivable or Account 1190, Other Accounts Receivable, as appropriate

(d) Dividends received and receivable from affiliated companies accounted for on the equity method shall be included in Account 1401, Investments in Affiliated Companies, as a reduction of the carrying value of the investment.

**§ 32.1220 Inventories.**

(a) This account shall include the cost of materials and supplies held in stock and inventories of goods held for resale or lease. The investment in inventories shall be maintained in the following subaccounts:

1220.1 Material and supplies.

1220.2 Property held for sale or lease.

(b) These subaccounts shall not include items which are related to a nonregulated activity unless that activity involved joint or common use of assets and resources in the provision of regulated and nonregulated products and services.

(c) 1220.1 Material and supplies. This subaccount shall include cost of material and supplies held in stock including plant supplies, motor vehicles supplies, tools, fuel, other supplies and material and articles of the company in process of manufacture for supply stock. (Note also § 32.2000(c)(2)(iii) of this subpart.)

(d) Transportation charges and sales and use taxes, so far as practicable, shall be included as a part of the cost of the particular material to which they relate. Transportation and sales and use taxes which are not included as part of the cost of particular material shall be equitably apportioned among the detail accounts to which material is charged.

(e) So far as practicable, cash and other discount on material shall be deducted in determining cost of the particular material to which they relate or credited to the account to which the material is charged. When such deduction is not practicable, discounts shall be equitably apportioned among the detail accounts to which material is charged.

(f) Material recovered in connection with construction, maintenance or retirement of property shall be charged to this account as follows:

(1) Reusable items that, when installed or in service, were retirement units shall be included in this account at the original cost, estimated if not known. (Note also § 32.2000(d)(3) of this subpart.)



(2) Reusable minor items that, when installed or in service, were not retirements units shall be included in this account at current prices new.

(3) The cost of repairing reusable material shall be charged to the appropriate account in the Plant Specific Operations Expense account.

(4) Scrap and nonuseable material included in this account shall be carried at the estimated amount which will be received therefor. The difference between the amounts realized for scrap and nonusable material sold and the amounts at which it is carried in this account, so far as practicable, shall be adjusted in the accounts credited when the material was taken up in this account.

(g) Interest paid on material bills, the payments of which are delayed, shall be charged to Account 7540, Other interest deductions.

(h) Inventories of material and supplies shall be taken during each calendar year and the adjustments to this account shall be charged or credited to Account 6512, Provisioning expense.

(i) *1220.2 Property held for sale or lease.* This subaccount shall include the cost of all items purchased for resale or lease. The cost shall include applicable transportation charges, sales and use taxes, and cash and other purchase discounts. Inventory shortage and overage shall be charged and credited, respectively, to Account 5820, Nonregulated operating revenue.

#### **§ 32.1280 Prepayments.**

This account shall be used by Class B companies to record assets of the type required of Class A Companies in accounts 1290 through 1330.

#### **§ 32.1290 Prepaid rents.**

This account shall include the amounts of rents paid in advance of the period in which they are chargeable to income, except amounts chargeable to telecommunications plants under construction and minor amounts which may be charged directly to the final accounts. As the term expires for which the rents are paid, this account shall be credited monthly and the appropriate account charged.

#### **§ 32.1300 Prepaid taxes.**

This account shall include the balance of all taxes, other than amounts chargeable to telecommunication plant under construction and minor amounts which may be charged to the final accounts, paid in advance and which are chargeable to income within one year. As the term expires for which the taxes are paid, this account shall be credited monthly and the appropriate account charged.

#### **§ 32.1310 Prepaid insurance.**

This account shall include the amount of insurance premiums paid in advance of the period in

which they are chargeable to income, except premiums chargeable to telecommunications plant under construction and minor amount which may be charged directly to the final accounts. As the term expires for which the premiums are paid, this account shall be credited monthly and the appropriate account charged.

**§ 32.1320 Prepaid directory expenses.**

This account shall include the cost of preparing, printing, binding, and delivering directories and the cost of soliciting advertisements for directories, except minor amounts which may be charged directly to Account 6622, Number Services. Amounts in this account shall be cleared to Account 6622 by monthly charges representing that portion of the expenses applicable to each month.

**§ 32.1330 Other prepayments.**

This account shall include prepayments, other than those includable in Accounts 1290 through 1320, except minor amounts which may be charged directly to the final accounts. As the term expires for which the payments apply, this account shall be credited monthly and the appropriate account charged.

**§ 32.1350 Other current assets.**

This account shall include the amount of all current assets which are not includable in Accounts 1120 through 1330.

**§ 32.1401 Investments in affiliated companies.**

(a) This account shall include the acquisition cost of the company's investment in equity or other securities issued or assumed by affiliated companies, other than securities held in special funds which shall be charged to Account 1408, Sinking Funds. The carrying value of the investment (securities) accounted for on the equity method shall be adjusted to recognize the company's share of the earnings or losses and dividends received or receivable of the affiliated company from the date of acquisition. (Note also Account 1210, Interest and Dividends Receivable, and Account 7310, Dividend Income.)

(b) Declines in value of investments accounted for under the cost method shall be charged to Account 4540, Other Capital, if temporary and as a current period loss if permanent. Detail records shall be maintained to reflect unrealized losses for each investment.

(c) A subsidiary record shall be kept identifying separately common stocks, preferred stocks, advances to affiliates, and long-term debt. Further, the company's records shall identify the securities pledged as collateral for any of the company's long-term debt or short-term loans or to secure performance of contracts.

(d) This account shall also include advances represented by book accounts only with respect to which it is carried or intended that they shall be either settled by issuance of capital stock or debt; or shall not be subject to current cost settlement.

(e) Amounts due from affiliated companies which are subject to current settlement shall be included in Account 1180, Telecommunications Account Receivable, Account 1190, Other Accounts Receivable, or Account 1200, Notes Receivable, as appropriate.

(f) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, subsidiary record categories shall be maintained in order that the entity may separately report the amounts contained herein that relate to the equity method and the cost method. Such subsidiary record categories shall be reported as required by Part 43 of this Commission's Rules and Regulations.

#### **§ 32.1402 Investments in nonaffiliated companies.**

(a) This account shall include the acquisition cost of the Company's investment in securities issued or assumed by nonaffiliated companies and individuals, other than securities held in special funds which shall be charged to Account 1408, Sinking Funds, and also its investment advances to such parties and special deposits of cash for more than one year from date of deposit.

(b) Declines in value of investment shall be charged to Account 4540, Other Capital, if temporary and as a current period loss if permanent. Detail records shall be maintained to reflect unrealized losses for each investment.

(c) This account shall also include advances represented by book accounts only with respect to which it is agreed or intended that they shall be either settled by issuance of capital stock or debt; or shall not be subject to current cost settlement.

(d) A subsidiary record shall be kept identifying separately common stocks, preferred stocks, long-term debt, investment advances and special deposits of cash for more than one year from the date of deposit. Further, the company's record shall identify the securities pledged as collateral for any of the company's long-term debt or short-term debt or short-term loans or to secure performance of contracts.

(e) Amounts due from nonaffiliated companies which are subject to current settlement shall be included in Account 1180, Telecommunications Accounts Receivable, Account 1190, Other Accounts Receivable, or Account 1200, Notes Receivable, as appropriate.

#### **§ 32.1406 Nonregulated investments.**

(a) This account shall include the carrier's investment in nonregulated activities accounted for in a separate set of books as provided in § 32.23(b).

(b) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, this account shall be subdivided as follows:

- 1406.1 Permanent investment
- 1406.2 Receivable/payable
- 1406.3 Current net income or loss.

**§ 32.1407 Unamortized debt issuance expense.**

(a) This account shall include the total unamortized balance of debt issuance expense for all classes of outstanding long-term debt. Amounts included in this account shall be amortized monthly and charged to Account 7530, Amortization of Debt Issuance Expense.

(b) Debt Issuance expense includes all expenses in connection with the issuance and sale of evidence of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; costs of engraving and printing bonds, certificates of indebtedness, and other commercial paper; fees paid trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen; fees and expenses of listing on exchanges, and other like costs.

(c) A subsidiary record shall be kept of each issue outstanding.

**§ 32.1408 Sinking funds.**

(a) This account shall include the amount of cash and other assets which are held by trustees or by the company's treasurer in a distinct fund, for the purpose of redeeming outstanding obligations.

(b) Interest or other income arising from funds carried in this account shall generally be charged to this account.

(c) A subsidiary record shall be kept for each sinking fund which shall designate the obligation in support of which the fund was created.

**§ 32.1410 Other noncurrent assets.**

This account shall include the amount of all noncurrent assets which are not includable in Accounts 1401 through 1408.

**§ 32.1437 Deferred Tax Regulatory Asset.**

(a) This account shall include amounts of probable future revenue for the recovery of future increases in taxes payable. As reversals occur, amounts recorded in this account shall be reduced with a credit entry and a debit entry to Account 4341, Net Deferred Tax Liability Adjustments.

(b) This account shall also be adjusted for the impact of prospective tax rate changes on the deferred tax liability for those temporary differences underlying its existing balance. If the cumulative effect of such adjustments reduce the account to a net credit balance, such balance shall be reclassified to Account 4361.

**§ 32.1438 Deferred maintenance and retirements.**

(a) This account shall include such items as the unprovided-for loss in service value of telecommunications plant for extraordinary non-recurring retirement not considered in depreciation and the

cost of extensive replacements of plant normally chargeable to the current period Plant Specific Operations Expense accounts.

(b) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, charges provided for in paragraph (a) above shall be included in this account only upon direction or approval from this Commission. However, the company's application to this Commission for such approval shall give full particulars concerning the property retired, the extensive replacements, the amounts chargeable to operating expenses and the period over which in its judgement the amount of such charges should be distributed.

#### **§ 32.1439 Deferred charges.**

(a) This account shall include all deferred charges not provided for in Accounts 1438, Deferred Maintenance and Retirements, and 1500, Other Jurisdictional Assets-Net. Such charges include unaudited amounts and other debit balances in suspense that cannot be cleared and disposed of until additional information is received; the amount, pending determination of loss, of funds on deposit with banks which have failed; revenue, expense, and income items held in suspense; amounts paid for options pending final disposition.

(b) This account shall include the cost of preliminary surveys, plans, investigation, etc., made for construction projects under contemplation. If the projects are carried out, the preliminary costs shall be included in the cost of the plant constructed. If the projects are abandoned, the preliminary costs shall be charged to Account 7370, Special Charges.

(c) This account shall include also the cost of valuations, inventories, and appraisals taken in connection with the acquisition or sale of property. If the property is subsequently acquired, the preliminary costs shall be accounted for as a part of the cost of acquisition, or if it is sold, such costs shall be deducted from the sale price in accounting for the property sold. If purchases or sales are abandoned, the preliminary costs included herein (including options paid, if any) shall be charged to Account 7370.

#### **§ 32.1500 Other jurisdictional assets - Net.**

This account shall include the cumulative impact on assets of jurisdictional ratemaking practices which vary from those of this Commission. All entries recorded in this account shall be recorded net of any applicable income tax effects and shall be supported by subsidiary records where necessary as provided for in § 32.13(e) of Subpart B.

#### **§ 32.2000 Instructions for telecommunications plant accounts.**

(a) *Purpose of telecommunications plant accounts.*

(1) The telecommunications plant accounts (2001 to 2007 inclusive) are designed to show the investment in the company's tangible and intangible telecommunications plant which ordinarily has a service life of more than one year, including such plant whether used by the company or others in providing telecommunications service.

(2) The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of telecommunications plant shall be credited to the accounts charged with the cost of such construction. Amounts of non-recurring reimbursements based on the cost of plant or equipment furnished in rendering service to a customer shall be credited to the accounts charged with the cost of the plant or equipment.

Amounts received for construction which are ultimately to be repaid wholly or in part, shall be credited to Account 4360, Other Deferred Credits; when final determination has been made as to the amount to be returned any unrefunded amounts shall be credited to the accounts charged with the cost of such construction. Amounts received for the construction of plant, the ownership of which rests with or will revert to others, shall be credited to the accounts charged with the cost of such construction. (Note also Account 7110, Income from Custom Work.)

(3) When telecommunications plant ordinarily having a service life of more than one year is installed for temporary use in providing telecommunications service, it shall be accounted for in the same manner as plant having a service life of more than one year. This includes temporary installations of plant (such as poles, wire and cable) installed to maintain service during the progress of highway reconstruction or during interruptions due to storms or other casualties, equipment used for training of operators, equipment used to provide intercepting positions in central offices to handle traffic for a short period following extensive system changes and similar installations of property used to provide telecommunications service.

(4) **FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)**, the cost of individual items of equipment, classifiable to Accounts 2112, Motor Vehicles; 2113, Aircraft; 2114, Special Purpose Vehicles; 2115, Garage Work Equipment; 2116, Other Work Equipment; 2122, Furniture; 2123, Office Equipment; and 2124, General Purpose Computers, costing \$2,000 or less or having a life less than one year shall be charged to the applicable Plant Specific Operations Expense accounts except for personal computers falling within Account 2124. Personal computers classifiable to Account 2124, with a total cost for all components, including initial operating software, of \$500 or less shall be charged to the applicable Plant Specific Operations Expense accounts. If the aggregate investment in the items is relatively large at the time of acquisition, such amounts shall be maintained in an applicable materials and supplies account until the items are used.

**(b) Telecommunications plant acquired (FOR COMPANIES NOT SUBJECT TO SECTION 32.2(g)).**

(1) Property, plant and equipment acquired from an entity, whether or not affiliated with the accounting company, shall be accounted for at original costs, except that property, plant and equipment acquired from a nonaffiliated entity shall be accounted for at acquisition cost if the purchase price is less than \$100,000 for Class A companies or \$25,000 for Class B companies.

(2) The accounting property, plant and equipment to be recorded at original cost shall be as follows:

(i) The amount of money paid (or current money value of any consideration other than money exchanged) for the property (together with preliminary expenses incurred in connection with the acquisition) shall be charged to Account 1439, Deferred Charges.

(ii) The original cost, estimated if not known, of telecommunications plant, governmental franchises and other similar rights acquired shall be charged to the applicable telecommunications plant accounts, Telecommunications Plant Under Construction, and Property Held for Future Telecommunications Use, as appropriate, and credited to Account 1439. When the actual original cost cannot be determined and estimates are used, the company shall be prepared to furnish the Commission with the particulars of such estimates.

(iii) Depreciation and amortization of plant acquired shall be credited to

Account 3100, Accumulated Depreciation, or Account 3200 Accumulated Depreciation-Held for Future Telecommunications Use, 3400, Accumulated Amortization-Tangible, 3410, Accumulated Amortization-Capitalized Leases, 3420, Accumulated Amortization-Leasehold Improvements, 3500, Accumulated Amortization-Intangibles, and 3600, Accumulated Amortization-Other, and debited to Account 1439.

(iv) Any amount remaining in Account 1439, applicable to the plant acquired, shall upon completion of the entries provided in paragraphs (b)(2)(i), (ii) and (iii) above, be debited or credited, as applicable to Account 2007, Goodwill or to Account 2005, Telecommunications Plant Adjustment, as appropriate.

(3) A memorandum record shall be kept showing the amount of contributions in aid of construction applicable to the property acquired as shown by the accounts of the previous owner.

(4) Companies shall submit to the Commission for consideration and approval copies of journal entries recording acquisition of telecommunications plant covered by this instruction when the consideration paid is \$1,000,000 or greater (Class A companies) and \$250,000 or greater (Class B companies). The text of such entries shall give a complete description of the property acquired and the basis upon which the amounts of the entries have been determined.

*(c) Cost of construction.*

(1) Telecommunications plant represents an economic resource which will be used to provide future services, the cost of which will be allocated in a rational and systematic manner to the future periods in which it provides benefits. In accounting for construction costs, the utility shall charge to the telecommunications plant accounts, where applicable, all direct and indirect costs.

(2) Direct and indirect costs shall include, but not be limited to:

(i) "Labor" includes the wages and expenses of employees directly engaged in or in direct charge of construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.

(ii) "Engineering" includes the portion of the wages and expenses of engineers, draftsmen, inspectors, and their direct supervision applicable to construction work. It includes expenses directly related to an employee's wages, such as worker's compensation insurance, payroll taxes, benefits and other similar items of expense.

(iii) "Material and supplies" includes the purchase price of material used at the point of free delivery plus the costs of inspection, loading and transportation, and an equitable portion of provisioning expense. In determining the cost of material used, proper allowance shall be made for unused material, for material recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of material. This item does not include construction material that is stolen or rendered unusable due to vandalism. Such material should be charged to the applicable plant specific operations expense accounts.

(iv) "Transportation" includes the cost of transporting employees, material and supplies, tools and other work equipment to and from the physical construction location. It includes amounts paid therefore to other companies or individuals and the cost of

using the company's own motor vehicles or other transportation equipment.

(v) "Contract work" includes amounts paid for work performed under contract or other agreement by other companies, firms or individuals; engineering and supervision applicable to such work; cost incident to the award of contracts; and the inspection of such work. The cost of construction work performed by affiliated companies and other details relating thereto shall be available from the work in progress and supporting records.

(vi) "Protection" includes the cost of protecting the company's property from fire or other casualties and the cost of preventing damages to others or the property of others.

(vii) "Privileges, Permits and Rights of way" includes such costs incurred in obtaining these privileges, permits, or rights of way in connection with construction work, such as for use of private property, streets or highways. The cost of such privileges and permits shall be included in the cost of the work for which the privileges or permits are obtained, except for costs includable in Account 2111, Land, and Account 2690, Intangibles.

(viii) "Taxes" includes taxes properly includable in construction costs before the facilities are completed for service, which taxes are assessed separately from taxes on operating property or under conditions that permit separate identification of the amount chargeable to construction.

(ix) "Special machine service" includes the cost of labor expended, materials and supplies consumed and other expenses incurred in the maintenance, operation and use of special and other labor saving machines (other than transportation equipment) such as trenching equipment, cable plows and pole setting trucks. Also included are expenditures for rental, maintenance and operation of such machines owned by others. When a construction job requires the purchase of special machines, the cost thereof, less the appraised or salvage value at the time of release from the job, shall be included in the cost of construction.

(x) Allowance for funds used during construction ("AFUDC") provides for the cost of financing the construction of telecommunications plant. AFUDC shall be charged to Account 2003, Telecommunications Plant Under Construction, and credited to Account 7340. The rate for calculating AFUDC shall be determined as follows: If financing plans associate a specific new borrowing with an asset, the rate on that borrowing may be used for the asset; if no specific new borrowing is associated with an asset or if the average accumulated expenditures for the asset exceed the amounts of specific new borrowing associated with it, the capitalization rate to be applied to such excess shall be a weighted average of the rates applicable to other borrowing of the enterprise. The amount of interest cost capitalized in an accounting period shall not exceed the total amount of interest cost incurred by the company in that period.

(xi) "Insurance" includes premiums paid specifically for protection against loss and damage in connection with the construction of telecommunications plant due to fire or other casualty, injury to or death of employees or others, damages to property of others, defalcations of employees and agents, and the nonperformance of contractual obligations of others.

(xii) "Construction services" include the cost of telephone, electricity, power, construction quarters, office space and equipment directly related to the construction



project.

(xiii) "Indirect construction costs" shall include indirect costs such as general engineering, supervision and support. Such costs, in addition to direct supervision, shall include indirect plant operations and engineering supervision up to, but not including, supervision by executive officers whose pay and expenses are chargeable to Account 6711, Executive. The records supporting the entries for indirect construction cost shall be kept so as to show the nature of the expenditures, the individual jobs and accounts charged, and the bases of the distribution. The amounts charged to each plant account for indirect costs shall be readily determinable. The instructions contained herein shall not be interpreted as permitting the addition to plant of amounts to cover indirect costs based on arbitrary allocations.

(xiv) The cost of construction shall not include any amounts classifiable as Corporate Operations Expense.

**32.2(g)). (d) Telecommunications plant retired (FOR COMPANIES NOT SUBJECT TO SECTION**

(1) Telecommunications plant accounts shall at all times disclose the original cost of all property in service. When any item of property subject to plant retirement accounting is worn out, lost, sold, destroyed, abandoned, surrendered upon lapse of title, becomes permanently unserviceable, is withdrawn or for any other reason is retired from service, the plant accounts applicable to that item shall be credited with the original cost of the plant retired whether replaced or not (except as provided for minor items in paragraph (d)(2)(ii) of this section). Normally, these retirements credits with respect to such plant as entire buildings, entire central offices, all plant abandoned and any large sections of plant withdrawn from service, shall be entered in the accounts for the month in which use of the property ceased. For any other plant withdrawn from service, the retirement credits shall be entered no later than the next succeeding month. Literal compliance with the provision for timing of entries with respect to property amounting to less than \$50,000 retired under any one project is not required if an unreasonable amount of recordkeeping and estimating of quantities, original costs and salvage is necessary. The retirement entry shall refer to the continuing property record, or records supplemental thereto, from which the cost was obtained (note also paragraph (d)(3) of this section). Every company shall establish procedures which will ensure compliance with these requirements.

(2) To avoid undue refinement, depreciable telecommunications plant shall be accounted for as follows:

(i) Retirement units: This group includes major items of property, a representative list of which shall be prescribed by this Commission. In lieu of the retirement units prescribed with respect to a particular account, a company may, after obtaining specific approval by this Commission, establish and maintain its own list of retirement units for a portion or all of the plant in any such account. For items included on the retirement units list, the original cost of any such items retired shall be credited to the plant account and charged to Account 3100, Accumulated Depreciation, whether or not replaced. The original cost of retirement units installed in place of property retired shall be charged to the applicable telecommunications plant account.

(ii) Minor items: This group includes any part or element of plant which is not designated as a retirement unit. The original cost of a minor item of property when included in the specific or average cost for a retirement unit or units requires no